

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

The Honorable Mayor and Members
of the City Council
City of Riverside
Riverside, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Riverside, California, (the City), as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used in the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, the 2002 financial statements have been restated to correct the accounting for sales tax receivable, capital lease revenue and an overstatement of capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2003 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 2 to 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Riverside's basic financial statements. The combining and individual fund statements and schedules on pages 57 to 81 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and Statistical Section as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

September 30, 2003
Riverside, California

Management's Discussion and Analysis

As management of the City of Riverside (the City), we offer this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on page v. of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements, comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains certain supplementary information.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the excess of assets over liabilities reported as net assets. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business type activities*). The governmental activities of the City include general

government, public safety, highways and streets, and culture and recreation. The business type activities of the City include Electric, Water, Sewer, Refuse, Public Parking, Airport and Transportation services.

The government-wide financial statements include the City and its component units. The City's component units are the Riverside Redevelopment Agency, Riverside Public Financing Authority, Parking Authority of the City of Riverside, Riverside Municipal Improvements Corporation, and the Riverside Civic Center Authority. Although legally separate, these entities function for all practical purposes as departments of the City and therefore have been blended as part of the primary government.

Both the Governmental Activities and the Business Type Activities are presented on the accrual basis of accounting, a basis of accounting that differs from the modified accrual basis of accounting used in presenting governmental fund financial statements. Note 1.C. of the Notes to the Basic Financial Statements fully describe these bases of accounting. Proprietary funds, discussed below, also follow the accrual basis of accounting.

The government-wide financial statements can be found on pages 21-22 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary, and fiduciary.

Governmental funds. *Governmental funds* are used to account for the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on balances of spendable resources available at the end of the fiscal year.

It is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Reconciliations to facilitate this comparison are provided for both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The major reconciling items relate to capital assets and debt. In the Governmental Funds, acquisitions of capital assets are treated as "expenditures" because upon purchase of a capital asset, cash used for the acquisition is no longer available for other purposes. The issuance of debt provides cash, which is now available for specified purposes. Accordingly, at the end of the fiscal year, the unreserved fund balances of the Governmental Funds reflect spendable resources available for appropriation by the City Council. Spendable balances are not presented on the face of the government-wide financial statements.

The City maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Redevelopment Agency Debt Service Fund, both of which are considered to be major funds. Data from the other seventeen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* and can be found on pages 57-67 in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 23-27 of this report.

Proprietary funds. The City maintains two different types of proprietary funds, enterprise and internal service funds. Enterprise funds are used to report the same functions presented as *business type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Electric, Water, Sewer, Refuse, Parking, Airport and for its Transportation services. *Internal service* funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for self-insured insurance programs, its central stores and for its fleet of vehicles. Because these services predominantly benefit governmental rather than business type functions, they have been included within *governmental activities* in the government-wide financial statements. Internal service funds are presented as proprietary funds because both enterprise and internal service funds follow the accrual basis of accounting.

Proprietary funds provide the same type of information as the government-wide financial statements (*business type activities*), only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water and Sewer operations, all of which are considered to be major funds of the City. The four remaining proprietary funds noted above are combined into a single, aggregated presentation. All internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major proprietary funds and the internal service funds is provided in the form of *combining statements* and can be found on pages 68-76 in this report.

The basic proprietary fund financial statements can be found on pages 28-32 of this report.

Agency funds. Agency funds are used to account for situations where the City's role is purely custodial. Agency funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All assets reported in Agency funds are offset by a liability; the accrual basis of accounting is used to recognize receivables and payables.

The Agency fund financial statement can be found on page 33 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 30 of this report.

Government-wide Financial Analysis

The following table presents a summarization of the City's assets, liabilities and net assets for its governmental and business type activities. As noted earlier, a government's net asset position may serve over time as a useful indicator of its financial position.

	Governmental Activities		Business type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$297,208	\$ 290,699	\$325,506	\$ 328,863	\$ 622,714	\$ 619,562
Capital assets, net	<u>481,547</u>	<u>475,773</u>	<u>651,665</u>	<u>618,263</u>	<u>1,133,212</u>	<u>1,094,036</u>
Total assets	<u>778,755</u>	<u>766,472</u>	<u>977,171</u>	<u>947,126</u>	<u>1,755,926</u>	<u>1,713,598</u>
Current liabilities	52,907	51,925	33,148	33,620	86,055	85,545
Long-term liabilities	<u>157,833</u>	<u>161,846</u>	<u>398,075</u>	<u>403,498</u>	<u>555,908</u>	<u>565,344</u>
Total liabilities	<u>210,740</u>	<u>213,771</u>	<u>431,223</u>	<u>437,118</u>	<u>641,963</u>	<u>650,889</u>
Net assets:						
Invested in capital assets, net of related debt	471,380	481,019	323,094	316,351	794,474	797,370
Restricted	106,862	115,352	40,869	38,535	147,731	153,887
Unrestricted	<u>(10,227)</u>	<u>(43,670)</u>	<u>81,985</u>	<u>155,122</u>	<u>171,758</u>	<u>111,452</u>
Total net assets	<u>\$568,015</u>	<u>\$ 552,701</u>	<u>\$545,948</u>	<u>\$ 510,008</u>	<u>\$1,113,963</u>	<u>\$ 1,062,709</u>

The City's assets exceeded liabilities by \$1,113,963 at June 30, 2003, an increase of \$51,254 from June 30, 2002.

By far the largest portion of the City's net assets (71 percent) reflects its investment in capital assets (i.e., land, buildings, machinery, equipment and infrastructure), net of any related debt that is still outstanding used to acquire those assets and net of unspent bond proceeds and cash held in bond reserve accounts. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

An additional portion of the City's net assets (13 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$171,758) may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, \$181,985 is held by the business type activities; the governmental activities reflect a negative \$10,227. The Riverside Redevelopment Agency (the Agency), a blended component unit of the City, represents \$72,111 of negative unrestricted net assets for 2003 and was a negative \$94,108 in the prior year. The remaining governmental activities of the City have positive unrestricted net assets of \$61,884 in 2003 and \$50,438 in 2002, mostly attributable to the City's General Fund.

The Agency exists to finance improvements that serve to remediate blight within the City. Often these activities do not result in a residual asset, but rather underwrite the cost of a development activity deemed beneficial in meeting the Agency's objectives. The resulting statement of net assets reflects the debt obligation to be repaid through future tax revenues, without an offsetting asset. While this is the routine functioning of such an entity, when blended with the City, its negative unrestricted net assets causes the governmental activities to report a negative position.

The government's total net assets increased by \$51,254 during the current fiscal year, reflecting growth in both the governmental (\$15,314) and business type (\$35,940) activities. This is primarily due to continued investment by the City in its infrastructure, which is largely funded by grants and dedicated revenue sources. Lastly, business type unrestricted assets grew based on municipal service charges for service exceeding the current years operating expenditures.

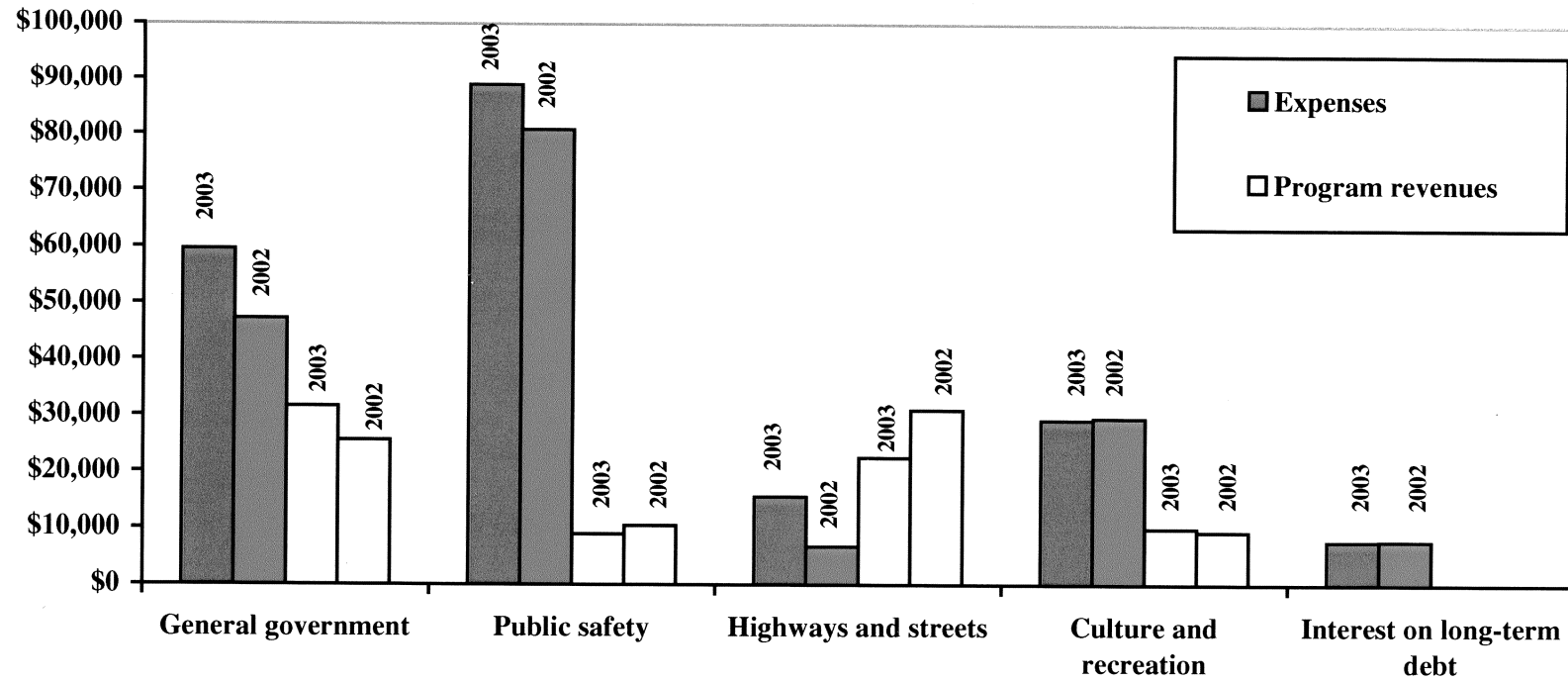
The following condensed summary of activities of the City's governmental and business type operations for the period ended June 30, 2003 shows total net assets increasing by \$51,254. The prior fiscal year is also presented for comparative purposes. Also included in the following analysis are revenue and expense graphs to aid the reader in their understanding of the results of the current year's activities.

	Governmental Activities		Business Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program Revenues:						
Charges for services	\$58,273	\$ 49,682	\$269,498	\$ 278,515	\$ 327,771	\$ 328,197
Operating Grants and Contributions	12,716	7,257	3,663	2,992	16,379	10,249
Capital Grants and Contributions	2,144	19,528	4,976	1,877	7,120	21,405
General Revenues:						
Sales taxes	41,691	38,806	-	-	41,691	38,806
Property taxes	33,584	29,471	-	-	33,584	29,471
Other taxes and fees	42,239	40,205	-	-	42,239	40,205
Grants and contributions not restricted to specific programs	-	-	15,972	12,638	15,972	12,638
Other	<u>10,305</u>	<u>16,137</u>	<u>12,964</u>	<u>26,304</u>	<u>23,269</u>	<u>42,441</u>
Total revenues	<u>200,952</u>	<u>201,086</u>	<u>307,073</u>	<u>322,326</u>	<u>508,025</u>	<u>523,412</u>
Expenses:						
General government	59,530	47,245	-	-	59,530	47,245
Public safety	88,969	80,944	-	-	88,969	80,944
Highways and streets	15,625	6,819	-	-	15,625	6,819
Culture and recreation	29,236	29,607	-	-	29,236	29,607
Interest on long-term debt	7,696	7,727	-	-	7,696	7,727
Electric	-	-	186,917	215,131	186,917	215,131
Water	-	-	29,715	28,978	29,715	28,978
Sewer	-	-	20,053	19,214	20,053	19,214
Refuse	-	-	11,577	10,821	11,577	10,821
Airport	-	-	1,151	1,045	1,151	1,045
Transportation	-	-	2,110	1,735	2,110	1,735
Public Parking	-	-	<u>1,392</u>	-	<u>1,392</u>	-
Total expenses	<u>201,056</u>	<u>172,342</u>	<u>252,915</u>	<u>276,924</u>	<u>453,971</u>	<u>449,266</u>
Increase in net assets before Transfers and Contributions	(104)	28,744	54,158	45,402	54,054	74,146
Transfers	18,218	18,057	(18,218)	(18,057)	-	-
Contributions	<u>(2,800)</u>	-	-	-	<u>(2,800)</u>	-
Increase in net assets	15,314	46,801	35,940	27,345	51,254	74,146
Net assets – beginning, as restated	<u>552,701</u>	<u>505,900</u>	<u>510,008</u>	<u>482,663</u>	<u>1,062,709</u>	<u>988,563</u>
Net assets – ending	<u>\$568,015</u>	<u>\$ 552,701</u>	<u>\$545,948</u>	<u>\$ 510,008</u>	<u>\$1,113,963</u>	<u>\$1,062,709</u>

Governmental activities. Governmental activities increased the City's net assets by \$15,314, accounting for 30 percent of the total growth in net assets. The prior fiscal period increased net assets by \$46,462. Key elements of this year's increase in relation to the prior year are as follows:

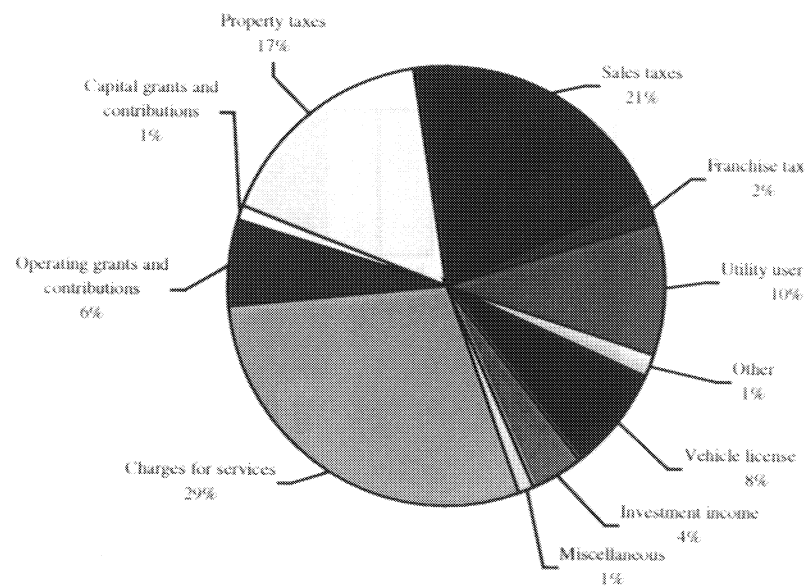
- Charges for services increased by \$10,161 primarily as a result of increased revenue from building permits and related fees from builders accelerating projects to avoid Transportation Uniform Mitigation Fees associated with single family development that became effective May 27, 2003.
- Operating grants and contributions at \$12,716 was \$5,459 higher in fiscal year 2003 principally due to increased activity in the Housing and Development Fund. Several large projects were funded; increased payoffs of Community Development Block Grant loans occurred due to participants taking advantage of improved interest rates; and the fund received prior year funding due to delayed billings from the County.
- Capital grants and contributions decreased from \$19,528 in 2002 to \$2,144 in 2003. This decrease is primarily due to proceeds received in 2002 for: (1) financing of the Riverwalk Assessment District; (2) reimbursement from the State for the acquisition of the Citrus State Historical Park; and (3) reimbursement of project expenditures from the U.S. Department of Housing and Development for the Mission Village Project.
- Sales, property and other taxes and fees increased \$9,032 in 2003 because of the strong local economy.
- Other general revenues decreased from \$16,137 to \$10,305 mainly due to a decrease in investment income resulting from lower interest rates and a decrease in miscellaneous refunds and reimbursements.
- While significant variances between years exist between the various expense functions, the total increase was \$29 million. The more significant items accounting for the increase are: (1) public safety salaries and benefits, coupled with costs associated with the substantial technological improvements and increased training for police officers; (2) the impairment in value of a significant capital asset in conjunction with ongoing redevelopment efforts; (3) higher depreciation expense; and, (4) increased development related expenses.

Expenses and Programs Revenues – Governmental Activities – Fiscal Year Comparison

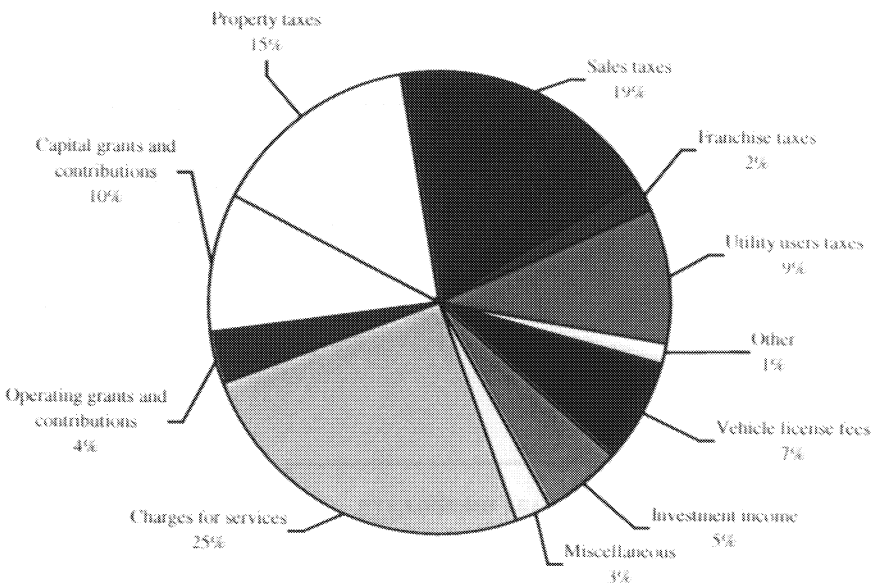


Revenues by Source – Governmental Activities – Fiscal Year Comparison

2003



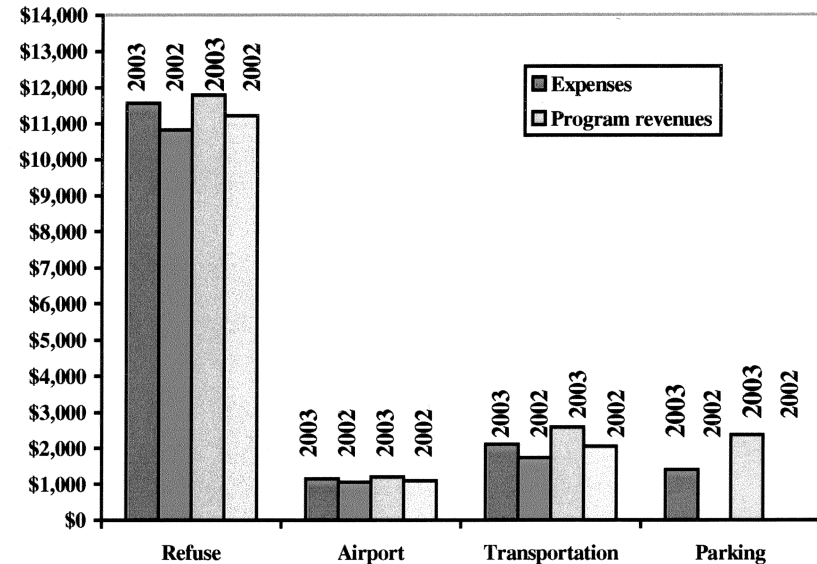
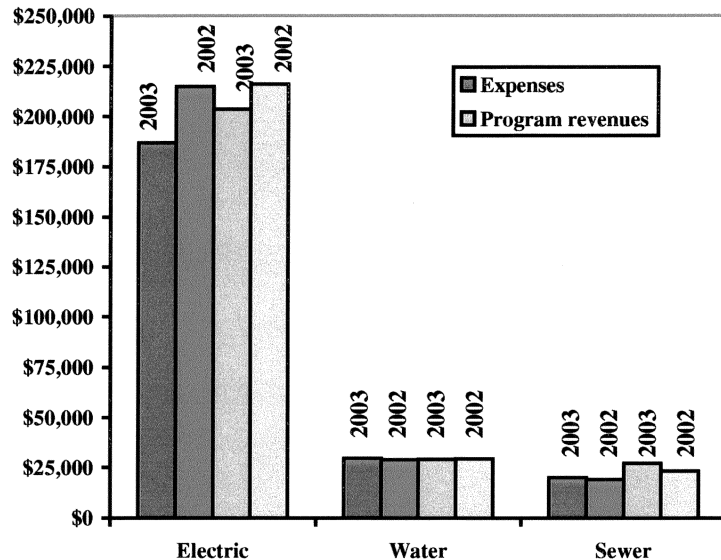
2002



Business type activities. Business type activities increased the City's net assets by \$35,940, accounting for 70 percent of the total growth in net assets. Net assets of the business type activities increased in the prior fiscal period by \$27,345. Key elements of this year's increase in relation to the prior year are as follows:

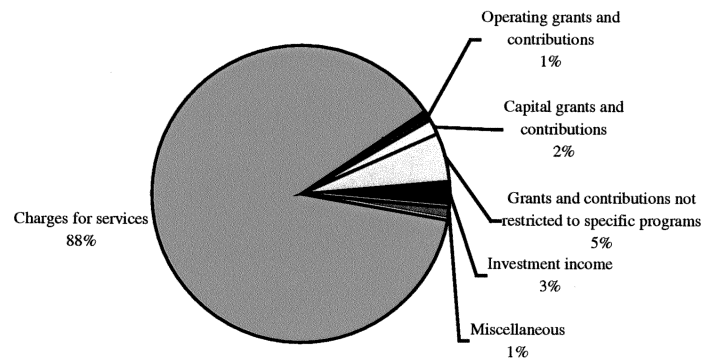
- Total revenues decreased in 2003 to \$307,073 from \$322,326 in 2002 primarily due to a decrease in wholesale electric sales, which was offset in part by new transmission revenue in the Electric Fund. Also, in 2002, the Water fund received a one-time settlement of \$7,900.
- Capital grants and contributions were higher in the current year than prior year by \$3,334. The increase is mainly due to the transfer of parking structures from the General Fund to the newly created Parking Fund.

Expenses and Programs Revenues – Business Type Activities – Fiscal Year Comparison

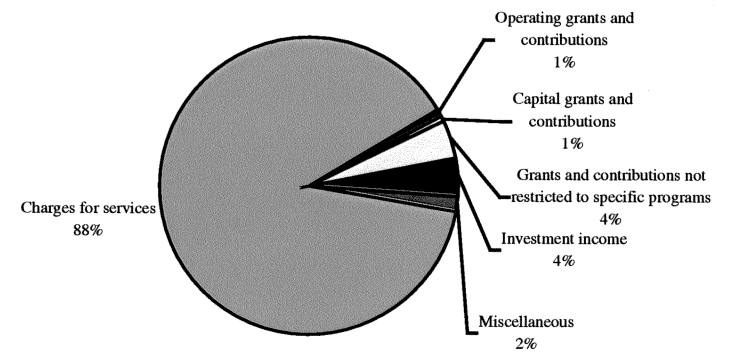


Revenues by Source – Business Type Activities – Fiscal Year Comparison

2003



2002



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$195,228, an increase of \$9,760 in comparison with the prior year. Approximately three-quarters of this amount (\$152,743) constitutes unreserved fund balance, which is available for spending at the City's discretion. However, \$122,496 of that amount has been designated for specific capital projects and economic contingencies. The remainder of fund balance is reserved to indicate funds not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$20,726), 2) to pay debt service (\$9,161), and 3) for a variety of other restricted purposes (\$12,598).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$67,376, of which \$54,334 was designated for future operations and economic contingencies. The total fund balance reached \$81,738.

The fund balance of the City's general fund increased by \$2,184 during the current fiscal year. This is due to the continued strength of the local economy, which translates into development-oriented revenues and significant taxable sales. Revenues finished approximately \$8.3 million above the original budgeted amounts. Departments budgeted allocations exceeded actual expenditures by approximately \$57.6 million. It is important to note, however, that most of these expenditure savings are designated for capital projects and the spending authority is continued to the next fiscal year. These committed monies are reflected as a designation of fund balance. Also, an additional \$1.1 million was set-aside in the economic contingency portion of the fund balance, increasing that balance to \$22.5 million.

The Redevelopment debt service fund has a total fund balance of \$8,394, all of which is reserved for the payment of debt service. A net decrease in the fund balance occurred during the current year (\$1,561), as fewer funds were required to meet near term debt service payments.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Electric, Water and Sewer operations at the end of the year amounted to \$88,953, \$15,853, and \$78,054, respectively. The total growth in net assets for these funds was \$12,382, \$7,643 and \$10,311, respectively, demonstrating the adequacy of the current rate structure for these funds.

General Fund Budgetary Highlights

The increase from the total original budgeted expenditures to the final amounted of \$28,596 can be generally summarized as follows:

- The Administrative Services department added appropriations of \$18,074, primarily to cover purchases of land for an airport clear zone, an airport fire station and a new police precinct facility. A bond issue will be completed during fiscal year 2003-04 to cover the costs to complete these projects;
- The Police department added appropriations of \$3,604, primarily for grant funded operational charges;
- The Fire department added appropriations of \$1,166, primarily for grant funded operational charges;
- The Park and Recreation department added appropriations of \$3,062, primarily for grant funded improvement projects; and
- Other miscellaneous appropriations were added in the remaining departments throughout the year in the amount of \$2,690.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2003 amounted to \$1,133,212 (net of accumulated depreciation). This investment includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's net investment in capital assets for the current fiscal year was \$39,176 (\$5,774 for governmental activities including internal service funds and \$33,402 for business type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of street improvements (\$15,587); a new branch library (\$2,278); completion of the installation of four natural gas turbine generators by the Electric Utility (\$45,552); Water Utility system upgrades (\$32,476); and Sewer department upgrades (\$2,230).

Construction in progress totaled \$48,304 at June 30, 2003. Depreciation expense during the fiscal year was \$17,441 for governmental activities and \$24,531 for business type activities.

City of Riverside's Capital Assets
(net of depreciation)

	Governmental Activities		Business Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$109,965	\$ 112,067	\$ 32,560	\$ 30,425	\$ 142,525	\$ 142,492
Buildings and improvements	48,757	55,233	136,243	138,439	185,000	193,672
Improvements other than Buildings	17,369	18,664	441,875	369,712	459,244	388,376
Machinery and equipment	13,983	16,011	9,097	9,043	23,080	25,054
Infrastructure	275,059	268,931	-	-	275,059	268,931
Construction in progress	16,414	4,867	31,890	70,644	48,304	75,511
Total	<u>\$481,547</u>	<u>\$ 475,773</u>	<u>\$651,665</u>	<u>\$618,263</u>	<u>\$1,133,212</u>	<u>\$ 1,094,036</u>

Additional information on the City's capital assets can be found in note 5 on page 36 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$456,824. The total represents bonds secured solely by specified revenue sources (i.e., revenue bonds). At June 30, 2003, the City had no special assessment debt outstanding.

City of Riverside's Long-Term Debt

	Governmental Activities		Business Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Lease/Revenue Bonds	\$109,615	\$112,405	\$342,559	\$355,621	\$456,824	\$473,701
Certificates of Participation	4,650	5,150	-	-	4,650	5,150
Special assessment debt with Government commitment	-	135	-	-	-	135
Notes Payable	11,447	11,096	11,524	6,966	22,971	18,062
Capital Leases	5,517	6,430	498	571	6,015	7,001
Compensated Absences	26,604	26,630	-	-	26,604	26,630
Water Acquisition Rights	-	-	1,083	1,121	1,083	1,121
Total	<u>\$157,833</u>	<u>\$161,846</u>	<u>\$355,664</u>	<u>\$364,279</u>	<u>\$518,147</u>	<u>\$531,800</u>

The City's total debt decreased by \$13,653 (2.6 percent) during the current fiscal year due to the issuance of \$5,374 in new sewer department debt offset by scheduled debt service payments.

The City's Electric and Water Utilities maintain an "A+" and "AA", respectively, from Standard & Poors and Fitch for their revenue bonds.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total assessed valuation. The current debt limitation for the City is \$1,782,778, all of which is excess because the City has no outstanding general obligation debt.

Additional information on the City's long-term debt can be found in note 7 on page 42 of this report

State of California Issues That May Impact the City in Future Years

Vehicle License Fees (VLF) Issue:

The State of California is facing significant deficits due to a number of factors, not the least of which include a slowdown in the State's economy and the effects of unfavorable long-term contracts entered into during the energy crisis of 2002. Current estimates of the State's budget shortfall for FYE 2004 range up to \$10.2 billion, excluding any required state "backfill" for VLF. Since a significant portion of local government revenues come from the State, the current budget crisis in California could have a direct significant financial impact on all local governments, including the City of Riverside. The State's legislature have instituted many revenue enhancement Bills to try to narrow the budget shortfall, including raising the license fees paid by car owners by 200% effective October 1, 2003. This Bill caused a backlash of criticism from the public which, in turn, led to repealing the fee increase as a major issue in the October 7, 2003 California Governor recall election. On November 17, 2003, the State's new governor signed an executive order repealing the license fee increase retroactive to October 1, 2003.

The Governor wants both houses to approve a General Fund appropriation of approximately \$3.2 billion to backfill lost local government revenue from the vehicle license fee, but the initial word is that the Senate's Democratic leadership is reluctant to fund a backfill for local government at the expense of General Fund supported programs.

The Legislative Analyst has issued her report on the current condition of the State's finances in which she predicts ongoing deficits of about \$14 billion annually. The Governor has called for special sessions of the State legislature beginning November 18, 2003 to discuss the state's fiscal problems. At this time, the City's Management is not able to predict the ultimate effect that the reduction in VLF fees will have on the City's financial position or results of operations.

Seal Beach, California Proposition 13 Issue:

In November 2001, an Orange County Superior Court Judge ruled that the Orange County Assessor's Office violated Proposition 13 by increasing the taxable value of a Seal Beach, California residence by 4% in a single year (1998). County attorneys argued that the assessment was legal because it made up for years in which the property value did not increase. The county maintains it was merely "recapturing" the full tax value of the property, charging 2% for each of the years the property values did not rise. On December 12, 2002, the Superior Court certified class action status for this case and the Court and Tax Collector are currently addressing when and if notification to the taxpayers should be executed.

In 2002, two other local courts (Los Angeles and San Diego) ruled differently on this issue and both affirmed the current statewide practice of property assessment restoration (i.e.; the local courts differ on this issue). The property tax laws are applied on a statewide

basis and the contradicting ruling with two other local courts on the same legal issue requires a uniformity review at the appellate level. With this notice, the Court of Appeal will establish a briefing and hearing schedule and that process may take several months to complete. Based on the Court of Appeal's briefing schedule, the respondent is required to submit a reply brief by October 17, 2003. Then, the appellants will answer the respondent's reply brief by November 7, 2003. The Court of Appeal has scheduled a hearing on December 16, 2003. If the Judge's decision is upheld on appeal, it could have financial ramifications throughout the State of California. The City's management is unable to reasonably estimate the financial effect on the City, or on the Redevelopment Agency, if the Orange County Superior Court's decision is upheld since it would be dependent upon how the Court of Appeal decides to apply its ruling.

Economic Factors and Next Year's Budget and Rates

- ☐ The assessment roll for the City increased 7.5% between fiscal year 2003 and fiscal year 2004.
- ☐ Property taxes increased between fiscal year 2002 and 2003 by 14% due to new development and higher assessed property values.
- ☐ Employment in Riverside County is up 3.6% over the prior year and unemployment is down to 5.8% as of February 2003 as compared to 6.1% for February 2002.
- ☐ The voters of the City of Riverside passed Measure G in November 2003, whereby the City will incur up to \$20 million of bonded indebtedness to replace outdated and substandard fire stations, upgrade training facilities and construct an emergency operations center. The debt is to be repaid from ad valorem taxes levied annually at a rate not to exceed \$12 per \$100,000 of property tax values.
- ☐ Effective November 1, 2003, the City electric rates will increase 3.1%. Rates will increase to help improve system reliability, ensure the financial stability of the Utility and help avoid large unplanned rate increases in the future.
- ☐ The required contribution rates as a percentage of payroll for the City's retirement program will be increasing effective July 1, 2004 as follows:
 - Miscellaneous Plan – 3.3% to 12.34%
 - Safety Plan – 15.8% to 31.2%

At the time of budget preparation for fiscal year 2004, the economic outlook for the City was considered to be very strong. The General Fund Budget for fiscal year 2004 of \$149 million contemplates the use of approximately \$4 million of the beginning fund balance.

Request for information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 3900 Main Street City of Riverside, CA 92522.